

U.S. House of Representatives Committee on Small Business
Subcommittee on Investigations and Oversight
The Impact of Energy Policy on Small Business
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I wish to thank the Committee for allowing me to testify on behalf of myself and the thousands of others like me who depend 100% on the independent oil and gas business for our livelihoods. For perspective, I own and operate a small oil and gas exploration and production company, with 16 employees in our Tulsa office and another 10 field supervisors and workers. We just passed our 50th anniversary of looking for oil and gas reserves. Both of my grandfathers relied on this industry for their livelihoods. I learned the business at the knee of my father. I now have a son learning the business. I drill wells and pay employees out of the same pocketbook I buy groceries out of. The success or failure of our operations is very personal to my wife and me and to our six children and 10 grandchildren.

Independent oil and gas operators get the money for exploration and production activities from two sources: internally generated cash from production, and outside capital raised from non-operator investors. In our company, we annually “plow back” 100% of the cash generated from production and employ several times that amount from outside investors. Capital tends to flow into the business for new exploration when the business can provide reasonable expectations of a strong return, and flows to other industries when oil and gas is viewed as too risky for expected rewards.

In my 35 years in this volatile business, approximately 22 of those years were sideways or down economic experiences for our company and our family. The other 13 were rewarding economic experiences. Obviously, the good years have to pay for the bad ones.

Federal government actions directly impact my business. There are three topics important to my operations that are on your plate in Washington today. Any one of these could severely cripple my business.

- (1) Elimination of Intangible Drilling Costs as a Tax Deduction – IDC's are the expenses we incur every time we drill a well. They are normal business expenses, just like any business incurs – paying people, buying supplies, buying services. In the name of punishing oil and gas companies, Congress wants to repeal these items as tax deductions.
- (2) Repeal of Percentage Depletion as a Tax Deduction – Percentage Depletion has been recognized for over 50 years by the accounting profession as a normal and logical recognition of a depleting asset, much like depreciation on a piece of income producing real estate. Like drilling cost deductions, eliminating percentage depletion has become a politically popular vehicle for nailing oil companies. The most misunderstood fact among elected officials is that, if the objective is to bash Big Oil, the major oil companies don't even use Percentage Depletion as a tax deduction – they use cost depletion. So the repeal of Percentage Depletion hurts only little guys, like me.

In a lookback on my operation for 2008, had these two business expenses deductions been repealed, as is now proposed in Congress, my family and the investors we have attracted to our activities would have paid **\$975,000** more in federal income taxes.

The consequences of that burden would be as follows:

- **My investors would direct their money to another industry, or not invest at all.**
- **Our family would very likely not continue in this business – too much risk for the perceived reward.**
- **26 employees at Sullivan and Company would be out of work**
- **Dozens of vendors would no longer be selling supplies and services to us.**
- **America would have less Heartland domestic oil and gas reserves and production.**

- (3) Classification of fracturing fluids as hazardous materials under the Safe Drinking Water Act. Fracturing rocks under the ground far below any drinking water sources has been taking place all over the world for decades, with no known adverse consequences to drinking water supplies. The thought of polluting our water supplies makes for a tantalizing, negative mental image for the uninformed and a tempting tool to bash alleged polluters. Hydraulic fracturing is not a high risk practice. For decades, the oil and gas industry worldwide has employed belts and suspenders to assure protection of drinking water sources, and has an enviable track record in this undertaking.

To classify hydraulic fracturing fluids as hazardous materials would serve to shut down (not slow down) a very large segment of today's domestic drilling operations. All of the currently burgeoning shale plays (Barnett, Haynesville, Fayette, Bakkan, Antrim, Marcellus) and much of the country's Coalbed Methane development would shut down. These relatively new producing provinces comprise the heart of America's newest and most important domestic reserves.

In my case, over 90% of the drilling we are now undertaking and planning over the next few years requires hydraulic fracturing. While this subject is likely to be considered first in the regulatory world (EPA), it is of such national importance that legislative action is also likely. **I urge you, as responsible representatives and fellow stewards of our natural resources, to reject any federal action that would restrict hydraulic fracturing as a proven method of recovering much needed domestic oil and gas reserves.**

In closing, let me make a general request. The private sector in this country has proven that it has been and can be the engine that has propelled America to the highest standard of living in the history of mankind. While responsible oversight and regulation are necessary to prevent abuses, the general posture of the federal government should be to avoid being a hindrance to the ingenuity, creativity, determination, productivity and honest pursuit of prosperity by small companies like mine. **The best thing you can do for us is to encourage, and not discourage, independent producers to find and produce domestic oil and gas.**

Respectfully Submitted,
Robert J. Sullivan, Jr.